



**Public Submission by  
Alcoa World Alumina Australia  
and Worsley Alumina  
on the  
Draft Determination on WestNet Rail's Proposed  
Floor & Ceiling Costs for Certain Rail Lines**

Prepared for:

Director Gas and Rail Access  
Economic Regulation Authority  
Level 6, 197 St Georges Tce  
PERTH WA 6000

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## CONTENTS

<b>1.</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>2.</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>3.</b>	<b>GENERAL COMMENTS – DISCUSSION OF ISSUES.....</b>	<b>7</b>
<b>4.</b>	<b>GROSS REPLACEMENT VALUE.....</b>	<b>9</b>
4.1.	Rail .....	9
4.2.	Earthworks.....	10
4.3.	Ballast.....	16
4.4.	Sleepers .....	17
4.5.	Communications.....	18
4.6.	Additional Passing Loops.....	20
<b>5.</b>	<b>MAINTENANCE COSTS .....</b>	<b>22</b>
<b>6.</b>	<b>OVERHEAD COSTS.....</b>	<b>28</b>
<b>7.</b>	<b>CONSISTENCY OF REVIEW DATES.....</b>	<b>31</b>

### Appendices

- A Confidential Appendix on Earthworks costs – not attached
- B Confidential Appendix on Track Maintenance Costs – not attached
- C Confidential Appendix on Communication GRV Quotation – not attached

## 1. INTRODUCTION

Alcoa World Alumina Australia (Alcoa) and Worsley Alumina Pty Ltd (Worsley) have reviewed in detail the Draft Determination on the Proposed Floor and Ceiling Costs (the DD) dated 20 March 2007. We have also reviewed the consultants report by PricewaterhouseCoopers in association with Hughes Consulting Services dated March 2007 (the PwC Review).

This submission provides responses to specific issues raised by the Draft Determination and also provides further details supporting our previous submissions on the WestNet Rail (WestNet) proposed price increases.

Some of the information provided in this submission is confidential. Where confidential data has been provided it is located in separate confidential appendices. Where possible, summary data extracted from the confidential appendices has been provided in the body of this submission on a non-confidential basis so that all interested parties gain an understanding of the issue.

Whilst we note the request from the Authority to minimise confidential submissions, we must emphasise that we have sought sensitive pricing information from many industry suppliers. These companies may also supply WestNet, its contractors or other rail owners. Where suppliers have asked for pricing information to remain confidential, we have acknowledged that request and provided the information to the Authority on a confidential basis. The Authority may provide this information to its nominated advisors provided that its advisors are bound by the same confidentiality requirements as the Authority under Section 50 of the Code.

All enquiries on this submission should be directed to:

John Oliver  
Global Sourcing Manager - Transportation & Logistics  
Alcoa World Alumina Australia

Tel: (08) 9316 5406  
Email: [John.Oliver@alcoa.com.au](mailto:John.Oliver@alcoa.com.au)

## 2. EXECUTIVE SUMMARY

The following recommendations or comments are extracted from the body of this submission and summarise the issues which Alcoa and Worsley consider must be addressed before the Final Determination on WestNet Rail Floor and Ceiling Costs is released. A more detailed explanation of each issue is provided in the relevant section. GRV related issues are discussed in Section 4, Maintenance Costs in Section 5 and Overhead Costs in Section 6.

### Rail GRV

1. We consider that with volume discounts on freight, the delivered cost for OneSteel rail should be \$1,430 per tonne FIS Midland however we have established that Chinese manufactured rail would be A\$1,002 per tonne FIS Midland and given the FMG experience of using Chinese manufactured rail in the Pilbara, the Chinese rail price should be used as the lowest current cost for rail.

### Earthworks GRV

2. We cannot agree with the PwC/HCS conclusion [DD para 141] that the proposed rate for earthworks "...appears reasonable and agrees with WNR proposed price change consistent with ABS *Roads and Bridge Construction* index of 17%".
3. We cannot agree with WestNet's original assertion that the price increase for South West Mainline earthworks is only 13%.
4. We object to the comment in DD paragraph 139 where PwC/HCS asserts that the price referenced by Alcoa/Worsley from Rawlinsons Australian Construction Handbook was for "a building site which has more regular dimensions".
5. We do not agree with the statement in DD paragraph 139 that the earthworks rate needs to be inflated to include toe-in of batters, topsoil stripping and stockpiling, provision of environmental protection, silt barriers to watercourses, protection of cuttings, grassing topsoiling and stabilising of fill and all earthworks batters and provision of access points and pads for maintenance including removal of construction roads at completion.

6. We consider that the cost of earthworks including capping for the SWM should be a maximum of \$131.00 per linear metre or \$19.00/m<sup>3</sup> – a 12% increase on the 2003 Determination.
7. WestNet has claimed a rate increase of 13% for earthworks on the Brunswick to Worsley and Worsley to Hamilton when the actual increase from the approved 2003 rate is 35% on the 1.5m formation and 47% on the 1m formation. We disagree with the analysis and the conclusions in the Draft Determination in paragraphs 138 to 141 and request an independent review of the assumptions made by WestNet and its advisors on earthworks costs between Brunswick and Premier.
8. We object to the assertion made by PwC/HCS and quoted in DD paragraph 141 that the increase in earthworks costs is consistent with the change in the ABS Roads and Bridge Construction Index of 17% when the actual increase is more than double the ABS index at 35% for Brunswick to Worsley and 47% for the balance of the track to Premier and to Hamilton. We consider that the rate for earthworks on the Brunswick to Worsley line should be \$169.50 per linear metre or \$14.85 per m<sup>3</sup>.

#### Ballast GRV

9. The Authority should state what transport cost, if any, is being allowed for ballast from each of the quarries nominated. We maintain that the maximum cost for ballast transport on the SWM should be \$3.60 per tonne.
10. Given the large quantities of ballast required on all lines, the ex quarry cost should remain quoted to two decimal places and not be rounded up to \$21.00 per tonne.

#### Sleeper GRV

11. We object to the conclusion in DD Paragraph 154 that “the Alcoa/Worsley proposed price does not include transport costs for delivery to WA” as this misrepresents our submission where we clearly stated that the sleeper plant would be built in WA and therefore transport costs would be zero.
12. In Paragraph 131, PwC/HCS suggest that a mid range price should be assumed based on a 5% reduction in the Humes price giving a SG sleeper price of \$90.25. We object to this conclusion and suggest that this mid-range price is not

representative of lowest current cost. Based on the Rocla and Austrak pricing, we would suggest that SG sleepers should be priced at an average price of \$83 per sleeper and therefore NG sleepers should be 9% less at \$75.50 per sleeper.

#### Communications GRV

13. PwC/HCS have reported in DD paragraph 143 that “the rate of increase in the cost of these systems since the 2003 Determination should not be higher than the relevant ABS index.” In the same paragraph, a figure of 10% is quoted as the proposed WestNet increase which “is in line with the increase in CPI”. We disagree with the conclusion in DD Paragraph 159 that the increase in costs for communications is reasonable as the extensive use of ABS data to justify other price increases in the Draft Determination appears to have been ignored in favour of a CPI increase in this case. Based on the quotation provided, we submit that the total communications GRV for the SWM should be \$8,754,620 which is \$4 million less than the proposed WestNet cost.

#### Passing Loops GRV

14. In the DD paragraph 146, the view on a new passing loop at Venn, north of Pinjarra is summarised as follows: “PwC/HCS is of the view that the proposed new loop at Venn is operationally justified and generally supported by customers”. We disagree with this conclusion as Alcoa/Worsley were the only SWM customers to provide submissions to the Authority in November 2006 and we specifically objected to the inclusion of the loop at Venn.
15. Alcoa also challenges the assertion (DD paragraph 146) that the loop is required to “hold Alcoa trains departing from Calcine when opposing trains are in the same section” as any Alcoa trains departing Calcine and heading north can be held on the branch line until the mainline is clear so it appears unlikely that another loop just 2 km north of the existing branch line at Pinjarra East would be required.
16. In response to the Authority’s request for submissions on the Venn loop we would refer the Authority to our original November 2006 comments, and the comments made above as justifying our view that the Venn loop should be excluded from WestNet’s floor and ceiling costs for 2006.

17. The Authority should clarify the cost of the Burekup Loop being used to determine the ceiling cost on the Brunswick Junction to Picton Junction section of line in this determination and in future determinations.

#### Maintenance Costs

18. We are concerned by the PwC/HCS assertion in DD Paragraph 219 that they “compared the WNR proposal to the actual maintenance unit costs being incurred in maintaining the existing network” and found the proposed MEA costs to be “between 8% and 50% below the actual WNR 2006 unit cost outcomes”. We would suggest that the MEA costs for maintenance should be more than 50% below the actual costs based solely on the removal of MPM maintenance costs.
19. We object to the Comparable Maintenance Costs table [DD paragraph 222 Table 2] where maintenance costs including MPM are compared with WestNet costs excluding MPM suggesting that the WestNet rates are therefore reasonable. We request that the statement and the Table in paragraph 222 be revised to reflect that comparable costs must exclude MPM, corporate overheads and any other costs not applicable to a GRV based model.
20. Based on the DIRN modelling, it is our view that maintenance costs should be \$15,273/km for the SWM and for the Brunswick to Worsley sections of line.
21. As we do not have access to the detailed allocation of signalling personnel, we would request that the total allocation of 59 FTE signalling maintenance personnel (which is based on the current asset mix) should be reassessed for a MEA maintenance task based on an optic fibre communication backbone and new solid state signalling equipment.

#### Overhead Costs

22. We would request that the Authority review the applicability of using current Train Controller numbers rather than benchmarking the required numbers for the MEA. We would suggest that two screens (and therefore two Train Controllers) would not be efficient practice on a new installation with full CTC control over the SWM, the Terminal Ends and the Worsley line.

23. In response to the invitation for submissions in DD Paragraph 264, Alcoa and Worsley submit that the new allocation methodology for overheads on the Terminal Ends does not work and it should include a cap which ensures that overheads on any one route section do not exceed 20% of the ceiling on that route section.
24. We object to the statement in DD Paragraph 254 which reads “Furthermore, PwC/HCS asserts that the separation out of the Terminal Ends into formal route sections was only undertaken to enable some customers to more fully attribute costs between their operating divisions”. We would suggest that it was the regulatory process that resulted in the unfair allocation of overheads to the Terminal Ends because these route sections were not included in the initial Clause 9 determination and that it was unrelated to any user or its operating divisions needing to allocate costs. We request that the comments made in DD Paragraph 254 and Paragraph 260 be reworded.

#### Consistency of Review Dates

25. Alcoa and Worsley recommend that the current price reset must now apply from the date of Final Determination and not from 1 July 2006.
26. We support the Authority’s proposal to align future review dates to coincide with the 1 July three yearly price review but would emphasis that the timelines for the process must guarantee a Final Determination is issued by the 1 July review date.

#### General Comments

27. Alcoa and Worsley are concerned by the comment in DD Paragraph 40 that a lack of comment on any section of the WestNet proposed Floor and Ceiling Costs means that the proposal is “acceptable to track users and access seekers”. We do not accept this statement and we consider it is the role of the Authority to test all proposed price increases submitted by WestNet Rail irrespective of comment from users, above rail operators or access seekers



### 3. GENERAL COMMENTS – DISCUSSION OF ISSUES

**Alcoa and Worsley are concerned by the comment in DD Paragraph 40 that a lack of comment on any section of the WestNet proposed Floor and Ceiling Costs means that the proposal is “acceptable to track users and access seekers”.**

We do not accept this statement and we consider it is the role of the Authority to test all proposed price increases submitted by WestNet Rail irrespective of comment from users, above rail operators or access seekers.

Implied in the Authority’s statement in DD Paragraph 40 is a view that track users and access seekers have sufficient information to form a view on the costs used in WestNet’s submissions – we do not agree with this assumption since most of the pricing information from WestNet remains confidential.

To suggest that the Authority has a fully informed users group and therefore receives all relevant input on the price increase seems unlikely given the fact that only two submissions were lodged in response to the Proposed Floor and Ceiling Costs submitted by WestNet in September 2006.

We would suggest that this is, in part, due to the approach taken by the Authority prior to issuing the Proposed Floor and Ceiling Costs for public submissions. The Authority carries out no initial review of the costs prior to the release for public comment, it does not provide an issues paper to identify specific areas where the Authority is seeking comment and it does not provide the detailed review on costs until after the Draft Determination is released. With only 30 days to comment after the release of the Draft Determination, there is little time to review both the Draft Determination and the supporting consultant’s report before the public submissions are due.

It is also of concern that the Authority seeks to have users prove costing information provided in public submissions. We would see it as the role of the Authority to test pricing information independently without the necessity of prompting from rail users. Since the Code dictates a theoretical cost base using GRV, there are inherent difficulties in identifying “lowest current cost” however we consider that the Authority should seek input from both within Australia and overseas to ensure that competitive costs are included in the price resets. Whilst the Code continues to be based on a GRV model, it is important that the Authority is satisfied that its modelling of prices continues to provide an adequate proxy to other DORC based access regimes.

We are also concerned by the comparisons made in the Draft Determination between maintenance costs for DORC based access regimes and the maintenance costs required for the GRV based WA Code. We would suggest that “headline” numbers used for comparison purposes must be based on the same scopes of work otherwise the reader is misled by the rates provided from other jurisdictions.

In view of these concerns, we have raised a number of new issues in the following submission where we have taken exception to some of the commentary in the Draft Determination. In doing so, we only seek an accurate account of the process be recorded and that the final determination should not misrepresent comments made in our previous submissions.

## 4. GROSS REPLACEMENT VALUE

Alcoa and Worsley have reviewed the comments made in the Draft Determination with regard to unit costs used to calculate the GRV and submit the following comments in relation to both our original submissions and the Draft Determination.

### 4.1. Rail

**Alcoa and Worsley accept the comments regarding OneSteel domestic cost of rail ex Whyalla at \$1,240 per tonne. We do not accept that this is the lowest price available worldwide.**

Alcoa sought pricing for rail from China based on advice that Fortescue Mining Group has imported 60,000 tonnes of rail from China for its new railway in the Pilbara. A large Chinese iron and steel mill specialising in rail product was asked to quote on 20,000 tonnes of 60 kg rail. The price received was CNY 4750 per tonne ex factory to which inland freight and shipping costs of US\$150 per tonne must be added. Adding local freight and clearance costs at Fremantle, this gives a FIS Midland cost of A\$1,002 per tonne and suggests that imported rail would be very competitive for large volumes of rail.

**We disagree with the calculations shown in DD paragraph 126 where this FOB cost of rail is converted to \$1,554/tonne FIS Midland. The cost of flashbutt welding has been added to the FIS Midland price and then compared with a WestNet price of \$1,440 per tonne which excludes flashbutt welding.**

Flashbutt welding is undertaken after delivery into store at Midland. Rail is shipped in 27.5m lengths to Midland. The WorleyParsons Report shows the cost of 60 kg rail delivered to the flashbutt facility at Midland as \$1,440 per tonne and then separately shows a cost of \$200 per weld with three welds required to manufacture 110m lengths for tracklaying. The cost of flashbutt welding is therefore \$600 per 110 m for 60 kg rail. The PwC/HCS comment in para 126 regarding flashbutt welding is therefore incorrect. The cost of three flashbutt welds per 110 m length converted to '\$ per tonne' is \$90 per tonne not \$30 per tonne. In any event, the cost of flashbutt welding should be excluded from both calculations and the comparison made on 27.5 m lengths.

The calculation in DD para 126 should be corrected to show a like-for-like comparison of the two rates.

**We consider that with volume discounts on freight, the delivered cost for OneSteel rail should be \$1,430 per tonne FIS Midland however we have established that Chinese manufactured rail would be A\$1,002 per tonne FIS Midland and given the FMG experience of using Chinese manufactured rail in the Pilbara, the Chinese rail price should be used as the lowest current cost for rail.**

We agree with the view expressed in DD Paragraph 127 that there should be no premium on large quantities of 41 kg or 50 kg rail and the same cost per tonne should apply to 50 kg rail.

#### **4.2. Earthworks**

**The approved rate for earthworks in the 2003 Determination was \$17.00 per m<sup>3</sup>. The rate now being proposed for NG track in the 2006 Draft Determination is \$23.21<sup>1</sup> per m<sup>3</sup> – a 36% increase on the 2003 rate - not 17% as is suggested in the Draft Determination Paragraph 141.**

This proposed rate for earthworks is totally unjustifiable, it is based on an unacceptable assumption that the cost of cut and fill to provide the formation for a MEA track should be \$19.23/m<sup>3</sup>. This rate which was proposed in the WorleyParsons Report was a 13% increase on the GHD rate proposed in December 2002 but the GHD rate was not approved by the Regulator. The GHD rate was for 100% imported fill – an approach which was rejected by the Regulator in the 2003 Determination.

**We cannot agree with the PwC/HCS conclusion [DD para 141] that the proposed rate for earthworks “...appears reasonable and agrees with WNR proposed price change consistent with ABS *Roads and Bridge Construction* index of 17%”.**

As stated above, the increase from the 2003 approved rate is 36%. The reference to the ABS data suggests that the WestNet proposal is grossly inflated.

**We cannot agree with WestNet’s original assertion<sup>2</sup> that the price increase for South West Mainline earthworks is only 13%.**

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<sup>1</sup> Calculated as \$250 per lm SG x 64% = \$160 for NG divided by 6.889 m<sup>3</sup> = \$23.21 per m<sup>3</sup>

<sup>2</sup> WestNet Proposed Floor and Ceilings August 2006, Page 17.

The original WestNet proposal was based on the WorleyParsons report which stated that the increase from 2003 was a 13% increase. WorleyParsons provided a calculation based on the GHD rates commissioned by WestNet in December 2002. The GHD Report calculated a rate for cut and fill of \$9.16/m<sup>3</sup> and a rate of \$17.00/m<sup>3</sup> for imported fill (hailed for up to 3 km). In the GHD Report, they adopted a rate of \$17.00/m<sup>3</sup> as the proposed rate for bulk earthworks excluding capping. As stated above, this proposed rate was rejected by the Regulator in the Final Determination dated 24 September 2003 and as such, there is no basis for suggesting that the latest cost represents only a 13% increase.

**We object to the comment in DD paragraph 139 where PwC/HCS asserts that the price referenced by Alcoa/Worsley from Rawlinsons Australian Construction Handbook was for “a building site which has more regular dimensions”.**

The rate quoted (\$8.15/m<sup>3</sup>) is from page 641 of Rawlinsons 2006 Edition and is for Civil Engineering works including road construction and was not a building site rate. It was the rate for bulk excavation “from borrow pit and deposit as fill within 1 km including compaction to 90% in light soil”. It therefore correctly represents the costs for a longitudinal site such as a rail or road reserve.

**We do not agree with the statement in DD paragraph 139 that the earthworks rate needs to be inflated to include toe-in of batters, topsoil stripping and stockpiling, provision of environmental protection, silt barriers to watercourses, protection of cuttings, grassing topsoiling and stabilising of fill and all earthworks batters and provision of access points and pads for maintenance including removal of construction roads at completion.**

The basis for calculation for earthworks was agreed in the Costing Principles approved by the Regulator’s Determination in September 2002. This determination excluded<sup>3</sup> cutting and embankments from the GRV. Since the major requirements for topsoil stripping and stockpiling, grassing, topsoiling replacement and stabilising relate to embankments and cuttings – these costs should not be included in the GRV as the original cuttings and embankments created when the railway line was first built are viewed as perpetual assets and become part of the land and are therefore excluded. Our revised quotation for earthworks (see following section) does however include a minimal cost increase for topsoil removal from the formation width to guarantee compaction results on the formation.

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<sup>3</sup> Determination on the Costing Principles to apply to WestNet Rail dated 27 September 2002, p26

### *SWM Earthworks - New Quote*

Alcoa has sought input from earthworks contractors, other infrastructure builders and Rawlinsons Construction Handbook and submits that prices in the range from \$10/m<sup>3</sup> to \$14/m<sup>3</sup> represent the “lowest current cost” for the earthworks (excluding capping). When combined with a capping layer cost of \$41.80/m<sup>3</sup>, the resulting average cost for earthworks is \$19.00/m<sup>3</sup>.

Following our November 2006 submission where we suggested that the high rate of \$19.23/m<sup>3</sup> (excluding capping) proposed by WestNet must relate to 100% imported fill, WorleyParsons advised<sup>4</sup> that this rate was a “formation fill sourced locally” rate and confirmed that only the “higher quality capping layer [was] to be imported”. This clarification from WorleyParsons only increases our concerns about the proposed rates as it suggests that, apart from the capping layer, there should be no imported fill component included in the WestNet rate.

As further evidence to support our view that \$19.23/m<sup>3</sup> is an inflated rate, we sought a quotation from an earthworks contractor experienced with conditions in the South West and provided the contractor with a scope of work based on the assumptions in the 2003 Final Determination and the Costing Principles. The following table summarises the results and includes our previously submitted Rawlinsons rates and the WestNet rate for comparison.

Rate for 50 km of earthworks in South West coastal plain	WestNet Proposed rate	Previous Alcoa/Worsley rate	Contractor A rate
Units:	\$/m <sup>3</sup>	\$/m <sup>3</sup>	\$/m <sup>3</sup>
Cut and Fill	\$19.23	10.89	\$13.31

**Table 4.2.1 Contractor rates for Cut and Fill on the SWM**

The rate quoted by Contractor A includes recurring site costs, supervision and management of the site, clearing and topsoil removal and a final subgrade preparation before adding the capping layer. To allow the Authority to understand the build up of this quotation, the details are provided in Confidential Appendix A. The previous

<sup>4</sup> WorleyParsons letter to WestNet Rail “Response to Alcoa’s comments from WP.doc” dated 6 December 2006, p3

Alcoa/Worsley rate excluded clearing and topsoil removal – according to Contractor A including this cost would add approximately \$1.00/m<sup>3</sup> to the quoted rate of \$10.89/m<sup>3</sup>. Both these rates are well below the proposed rate of \$19.23/m<sup>3</sup>.

When combined with a capping layer cost of \$41.80/m<sup>3</sup>, the Contractor A rate gives a total cost of \$131.00 per linear metre or \$19.02 per m<sup>3</sup>. This rate is significantly below the WestNet proposed rate of \$159.925 per linear metre or \$23.21/m<sup>3</sup> for narrow gauge track and represents a 12% increase (rather than the proposed 36% increase) on the 2003 Final Determination rate of \$17.00/m<sup>3</sup>.

#### *Brunswick to Premier Earthworks*

**WestNet has claimed a rate increase of 13% for earthworks on the Brunswick to Worsley and Worsley to Hamilton when the actual increase from the approved 2003 rate is 35% on the 1.5m formation and 47% on the 1m formation.**

WestNet has proposed<sup>5</sup> a 2006 cost of \$216,330/km for earthworks between Brunswick and Worsley (87% of the Standard Gauge rate) and \$142,094/km (57% of SG rate) for the balance of the route sections to Collie.

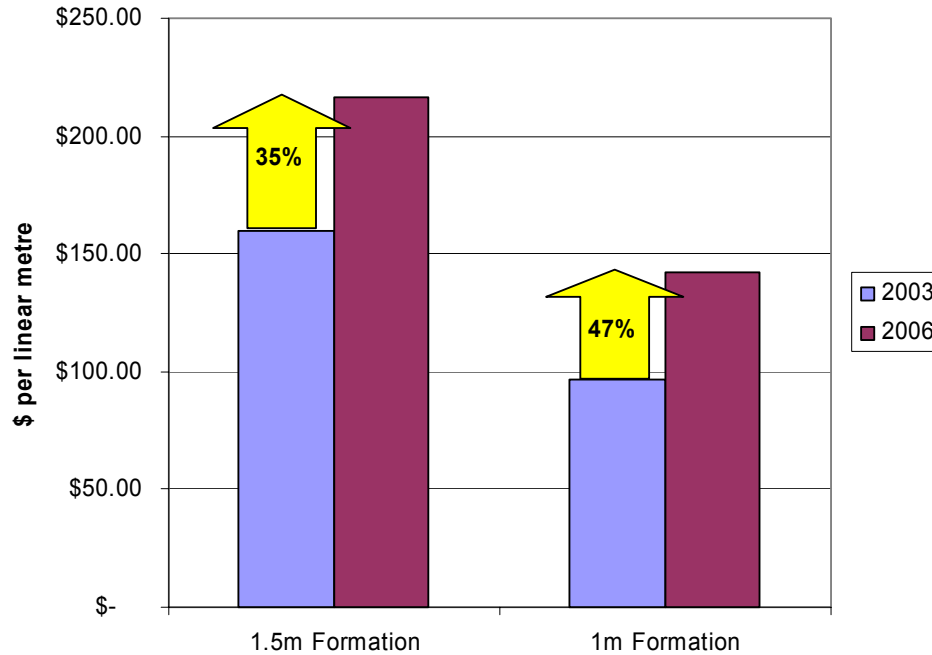
In the 2003 Determination on the Worsley Route Sections, the Regulator fixed the unit rate for earthworks (including capping) at \$14.00/m<sup>3</sup>. On this basis of this determination, the rate for 1.5m high formation in 2003 was \$159,866 per km<sup>6</sup> and the rate for 1m high formation was \$96,446 per km<sup>7</sup>. When compared with the proposed WestNet rates for 2006, the increases proposed are 35% and 47% increase respectively.

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<sup>5</sup> WestNet Proposed Floor and Ceilings August 2006, Page 17

<sup>6</sup> Rate of \$14.00/m<sup>3</sup> times volume of 1.5 formation at 11,419m<sup>3</sup> per km

<sup>7</sup> Rate of \$14.00/m<sup>3</sup> times volume of 6,889 m<sup>3</sup> per km



**Graph 4.2.1 Proposed increases in costs for 1.5 metre and 1 metre formation**

We have previously submitted in our Supplementary Submission dated February 2007 that a rate of  $\$8.15/\text{m}^3$  for local fill and  $\$12.00/\text{m}^3$  for imported fill accurately reflect current rates for work in the South West. Based on these rates, we provided a calculation (Supplementary Submission Table 4.3 page 6) which showed that the combined rate (including capping) for 1.5m formation should be  $\$145.30$  per linear metre (or  $\$12.72/\text{m}^3$ ). Using the same base data, the calculation for 1m high formation would be  $\$15.35/\text{m}^3$ .

Since that submission, we have received a quotation from Contractor A working in the South West and we have been provided with rates for both local cut to fill and borrow to fill. The following table compares the old rate, the new quoted rate and the WestNet rate for Brunswick to Worsley.



Rate for 50 km of earthworks in South West coastal plain 1.5 m formation	2003 Determination	WestNet Proposed rate	Previous Alcoa/Worsley rate	Contractor A rate
Units:	\$/m <sup>3</sup>	\$/m <sup>3</sup>	\$/m <sup>3</sup>	\$/m <sup>3</sup>
Cut and Fill (85%)	\$7.00	\$19.23	\$8.15	\$10.37
Borrow and fill (15%)	\$16.50	\$19.23	\$12.00	\$15.53

**Table 4.2.2 Contractors rates for 1.5m high Formation**

The rate quoted by Contractor A includes recurring site costs, supervision and management of the site, clearing and topsoil removal and a final subgrade preparation before adding the capping layer. To allow the Authority to understand the build up of this quotation, the details are provided in Confidential Appendix A. The previous Alcoa/Worsley rate excluded clearing and topsoil removal – according to Contractor A including this cost would add approximately \$0.70/m<sup>3</sup> to the quoted rate of \$8.15/m<sup>3</sup>. Both these rates are well below the proposed rate of \$19.23/m<sup>3</sup>.

When combined with a capping layer cost of \$41.80/m<sup>3</sup>, the Contractor A rate gives a total cost of \$169.53 per linear metre or \$14.85 per m<sup>3</sup>. This rate is significantly below the WestNet proposed rate of \$217.50 per linear metre or \$19.04/m<sup>3</sup> for narrow gauge track and represents a 6% increase (rather than the proposed 36% increase) on the 2003 Final Determination rate of \$14.00/m<sup>3</sup>.

**We disagree with the analysis and the conclusions in the Draft Determination in paragraphs 138 to 141 and request an independent review of the assumptions made by WestNet and its advisors on earthworks costs between Brunswick and Premier.**

**We object to the assertion made by PwC/HCS and quoted in DD paragraph 141 that the increase in earthworks costs is consistent with the change in the ABS Roads and Bridge Construction Index of 17% when the actual increase is more than double the ABS index at 35% for Brunswick to Worsley and 47% for the balance of the track to Premier and to Hamilton.**

**We consider that the rate for earthworks on the Brunswick to Worsley line should be \$169.50 per linear metre or \$14.85 per m<sup>3</sup>.**

### **4.3. Ballast**

We note that the Authority has accepted the quote from Hanson regarding ballast produced at the Gelorup quarry however there has been no comment made in the Draft Determination on the cost to deliver ballast to the pickup point as part of the tracklaying process. In the 2003 Determination, HCS expressed the view that the ex quarry price should be considered the delivery price “given the assumed large purchase size and likelihood that much of the transport cost will be absorbed in a competitive tender...”<sup>8</sup>. If this same approach is being taken by the Authority for the 2006 Determination then Table 1 should define that ballast cost includes delivery. If delivery is additional, then it is important to note that the suggestion made by WorleyParsons to use an average distance of 150 km is not acceptable on the South West Mainline as the average haul distance from a quarry at Kwinana and a quarry at Bunbury cannot be greater than 45km<sup>9</sup>.

**The Authority should state what transport cost, if any, is being allowed for ballast from each of the quarries nominated. We maintain that the maximum cost for ballast transport on the SWM should be \$3.60 per tonne.**

We object to the rounding error introduced into the ballast quote provided in our previous submission<sup>10</sup>. We supplied a lowest current cost quote of \$20.70 per tonne which has been rounded up in the DD paragraph 136 and in DD Table 1. By rounding up to \$21.00 per tonne, an increase in cost of \$0.30/t, the total GRV ballast cost for the SWM is increased by \$136,267<sup>11</sup>.

**Given the large quantities of ballast required on all lines, the cost should remain quoted to two decimal places and not be rounded up to \$21.00 per tonne.**

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<sup>8</sup> 2003 Determination on Floor and Ceiling Costs to apply to WestNet Rail, page 27 bullet 2

<sup>9</sup> Kwinana to Bunbury is 180 km end-to-end split between the two quarries = 90 km maximum distance from one quarry, therefore the average haul distance from one quarry must be less than 45 km (the mid point of the 90 km).

<sup>10</sup> Alcoa/Worsley Public Submission on WestNet Rail Floor and Ceiling Costs, November 2006, page 13

<sup>11</sup> The rounding difference is 30 cents x 2500 tonnes per km x 181.69 km = \$136,267

#### 4.4. Sleepers

**We object to the conclusion in DD Paragraph 154 that “the Alcoa/Worsley proposed price does not include transport costs for delivery to WA” as this misrepresents our submission where we clearly stated<sup>12</sup> that the sleeper plant would be built in WA and therefore transport costs would be zero.**

In the DD Paragraph 129, PwC/HCS suggest that the WestNet quoted price is reasonable based on a comparison with shipping sleepers from the Eastern States to Midland. In our confidential submission, we specifically stated - “It could be assumed that either of these companies [referring to Rocla or Austrak] would **build** a sleeper production facility in WA for the quantities required for the MEA rebuild of the WestNet network”.

DD paragraph 129 suggests that the prohibitive cost of shipping sleepers from the Eastern States justifies a local Humes price of \$95 - the conclusion being that this price “appears reasonable as the ex-works price in WA”. We agree that the cost of shipping sleepers from the Eastern States is prohibitive but we never suggested that sleepers should be shipped from the Eastern States. We have assumed that a local manufacturing facility would be built in WA since this arrangement has occurred on every other major rail infrastructure development in Australia in recent times (viz ARTC Upgrade works, the Alice Springs to Darwin Railway, etc).

It would seem more likely that the Humes price of \$95 per SG sleeper is not representative of a large scale order for concrete sleepers and as can be clearly seen from the \$86 per SG sleeper from Rocla, the Humes price is not “reasonable”.

**In Paragraph 131, PwC/HCS suggest that a mid range price should be assumed based on a 5% reduction in the Humes price giving a SG sleeper price of \$90.25.**

**We object to this conclusion and suggest that this mid-range price is not representative of lowest current cost.**

Our consultant has confirmed with Austrak, another major supplier of concrete sleepers, that a likely cost for large quantities of SG sleepers would be \$80 per sleeper including fastenings.

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<sup>12</sup>Alcoa/Worsley Confidential Submission to ERA dated 15 December 2006 page 3

**Based on the Rocla and Austrak pricing, we would suggest that SG sleepers should be priced at an average price of \$83 per sleeper and therefore NG sleepers should be 9% less at \$75.50 per sleeper.**

#### **4.5. Communications**

**PwC/HCS have reported in DD paragraph 143 that “the rate of increase in the cost of these systems since the 2003 Determination should not be higher than the relevant ABS index.” In the same paragraph, a figure of 10% is quoted as the proposed WestNet increase which “is in line with the increase in CPI”.**

PwC/HCS have not quoted the relevant ABS index in their review. The ABS Producers Price Index for telecommunications increased by only 0.46%<sup>13</sup> over the three years. We would submit that communications equipment pricing either remains static over time or provides higher communications speeds and/or bandwidth utilisation for little increase in cost such that the cost per MB of data is continually reducing over time. The suggested 10% increase in CPI has no relevance to the GRV for the Communications system and should be replaced by 0.5% being the relevant ABS index for the period June 2003 to March 2006.

**We disagree with the conclusion in DD Paragraph 159 that the increase in costs for communications is reasonable as the extensive use of ABS data to justify other price increases in the Draft Determination appears to have been ignored in favour of a CPI increase in this case.**

In our previous submission, Alcoa and Worsley suggested<sup>14</sup> that the total cost of the communications system on the SWM should be \$8,754,620. This figure was based on a detailed quotation commissioned by Alcoa which listed the communications assets required for the SWM and the Terminal Ends. It was provided to the Authority as a confidential appendix to our November 2006 submission. Based on feedback received on this quotation, we have provided another confidential attachment (Confidential Appendix C) with some additional commentary on the figures provided in our November 2006 submission. The estimate of the total cost is unchanged and we would suggest that the

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<sup>13</sup> ABS 6427.0 Producers Price Indexes reference A2306585L Telecom/Broadcast Equipment Jun 2003 to Mar 2006

<sup>14</sup> Alcoa/Worsley Public Submission on WestNet Rail Floor and Ceiling Costs, November 2006, page 16

Authority should again review the costs associated with the corrected WestNet costs. It is our view that the 20% design construct and project management fees added by WestNet are unjustifiable as the quotation provided includes all design costs and WestNet is only providing a minimal project oversight role given the high-tech nature of the project.

In the Costing Principles, WestNet<sup>15</sup> notes in the design, construct and project management fees section that:

*“In cases where such fees are included in unit rates, WestNet accepts that the project management fee should be reduced to account for such charges, keeping total design, construction and project management fees in line with a 20% limit.”*

On this basis, we submit that the 10% project management fee provided in our quotation is more than adequate.

Communications GRV	WestNet Supplementary GRV	ICT Consultants GRV (excluding Terminal Ends)	Difference
Contractors total cost	\$10,679,629	\$7,958,745	\$2,720,884
Project Management fee	\$2,135,926	\$ 795,875	\$1,340,051
Total	\$12,815,555	\$8,754,620	\$4,060,935

**Table 4.5.1 Comparison of Communications GRV**

Table 4.5.1 shows a breakdown of the costs between project management fees and the contractors quoted cost and highlights the difference in project management fees. It also shows the summary of the costs for the SWM excluding the Terminal Ends and a spreadsheet showing the build up of these costs is provided as Confidential Annexure C1.

**Based on the quotation provided, we submit that the total communications GRV for the SWM should be \$8,754,620 which is \$4 million less than the proposed WestNet cost.**

<sup>15</sup> WestNet Costing Principles, August 2006, Design, construction and project management fees page 9

#### 4.6. Additional Passing Loops

##### *Venn Loop*

**In the DD paragraph 146, the view on a new passing loop at Venn, north of Pinjarra is summarised as follows: “PwC/HCS is of the view that the proposed new loop at Venn is operationally justified and generally supported by customers”.**

**We disagree with this conclusion as Alcoa/Worsley were the only SWM customers to provide submissions to the Authority in November 2006 and we specifically objected to the inclusion of the loop at Venn.** To our knowledge, there were no customers supporting the construction of the Venn loop.

We are further concerned by several statements in the PwC Review on the Venn Loop which appear to relate to the Burekup Loop. The PwC Review states on page 17 that they were asked to test “the reasoning behind the locating of the new loop at Venn to the north of the major traffic growth area south of Wagerup and the change in cost of the Venn Loop”. Firstly, the Venn loop is north of Pinjarra not south of Wagerup, and secondly, WestNet has made no submission on the change of cost of the Venn loop – it only proposed a change to the cost of the Burekup loop<sup>16</sup>.

**Alcoa also challenges the assertion (DD paragraph 146) that the loop is required to “hold Alcoa trains departing from Calcine when opposing trains are in the same section” as any Alcoa trains departing Calcine and heading north can be held on the branch line until the mainline is clear so it appears unlikely that another loop just 2 km north of the existing branch line at Pinjarra East would be required.**

Whilst we obviously agree with the Authority’s conclusion (DD paragraph 162) that the loop should be excluded, we consider that the recommendations made by the Authority’s consultants should be updated if our comments made above are correct.

**In response to the Authority’s request for submissions on the Venn loop we would refer the Authority to our original November 2006 comments, and the comments made above as justifying our view that the Venn loop should be excluded from WestNet’s floor and ceiling costs for 2006.**

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<sup>16</sup> WestNet letter to the ERA dated 20 December 2006 “Response to Alcoa/Worsley and ARTC submissions on Ceilings and Floors”, page 5.

*Burekup Loop*

We understand that the cost of the Burekup has been included in the APM at \$3.22 million as proposed by WestNet in its letter dated 20 December 2006. Given that some of the unit costs proposed by WestNet in its August 2006 submission have been modified in the DD, we would seek clarification on how the Burekup loop will be costed both in this DD and in future determinations. If, as appears to be suggested by the DD, the full cost of building the loop is to be included in this current determination, then how will the APM be updated to reflect the agreed unit rates in the Final Determination.

We have estimated that the cost of the Burekup Loop should be \$2.6 million based on the unit rates recommended in our submission although we acknowledge that the cost of constructing the loop in isolation may be higher however we consider that this price reset should assume that the loop is constructed as part of the whole of the SWM and not as a single isolated loop.

**The Authority should clarify the cost of the Burekup Loop being used to determine the ceiling cost on the Brunswick Junction to Picton Junction section of line in this determination and in future determinations.**

## 5. MAINTENANCE COSTS

**We are concerned by the PwC/HCS assertion in DD Paragraph 219 that they “compared the WNR proposal to the actual maintenance unit costs being incurred in maintaining the existing network” and found the proposed MEA costs to be “between 8% and 50% below the actual WNR 2006 unit cost outcomes”**

We would suggest that the MEA costs for maintenance should be more than 50% below the actual costs based solely on the removal of MPM maintenance costs. After deducting further savings related to MEA infrastructure, the figure would be further reduced.

If this statement in Paragraph 219 is intended to suggest that any MEA maintenance cost which is between 8% and 50% below actual maintenance costs is acceptable then it clearly misrepresents the substantial differences between the GRV and DORC models. Further information to support our view that the proposed maintenance costs are unacceptable is provided below.

**We object to the Comparable Maintenance Costs table [DD paragraph 222 Table 2] where maintenance costs including MPM are compared with WestNet costs excluding MPM suggesting that the WestNet rates are therefore reasonable.**

This table gives a totally misleading view of maintenance costs across Australia. In the 2003 Final Determination, a table of maintenance costs was provided with ARTC and QR costs included. In that 2003 table<sup>17</sup>, all costs were normalised with all MPM, overhead, electrification and other non-applicable costs removed. For example, the QR maintenance cost for Moura was reduced from \$25,350 to \$12,200 – a reduction of 52% to provide a comparable cost. The table provided in the 2006 DD shows full costs for other jurisdictions and relies on the “small print” to explain that the headline numbers are not comparable. We consider this approach to be unacceptable.

In the PwC Review, page 18, PwC suggested that wages and salaries have “generally risen by an average of 4% pa over the past three years (or 12.5% in total)”. If this figure is also applicable to maintenance wages and 67% of all maintenance cost is labour, then the material component of the proposed WestNet increase would have to be 27.4% to give an overall increase of 17.4%. We would suggest that a material increase of 27.4% is

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<sup>17</sup> 2003 Determination on Floor and Ceiling Costs to apply to WestNet Rail, page 46



unsupportable based on the material cost increases discussed in the GRV section of the Draft Determination.

PwC/HCS also suggested in DD paragraph 219 that – “In assessing the reasonableness of WNR’s proposed maintenance costs....PwC/HCS compared the WNR proposal to the actual maintenance unit costs being incurred in maintaining the existing network....WNR’s proposed maintenance costs on four of the mainlines are between 8% and 50% below the actual WNR 2006 unit cost outcomes”.

Alcoa/Worsley would submit that there is no correlation between actual maintenance costs of an ageing asset and maintenance costs for a MEA track. In 2003, WestNet’s proposed maintenance cost for the SWM was reduced from \$25,674 per km to \$15,000 per km. This figure was the higher of the two estimates provided by the Authority’s consultants (\$15,000/km and \$13,000/km). Since the higher estimate was used, it would seem reasonable that efficient costs in the 2006 Determination should not automatically use the full indexation of the ABS data. We would suggest that other efficiencies as reported in the 2003 Determination would apply and therefore full indexation should not be applied.

The extensive review and the assessment of benchmarked figures from the 2003 Determination is not apparent in this latest PwC/HCS Review.

The GRV model established under the Code is only valid if all life-extending MPM activities are excluded from the calculation and suitable recognition is given to the fact that the asset is MEA and is in Year 1 condition every year as the GRV is reset every year. On this basis any comparison made with the QR coal lines or ARTC lines must correct for MPM maintenance and older equipment technologies and must also exclude any overhead allocations.

**We request that the statement and the Table in paragraph 222 be revised to reflect that comparable costs must exclude MPM, corporate overheads and any other costs not applicable to a GRV based model.**

*A new costing model*

In DD Paragraph 218, WestNet expressed the view that the maintenance model submitted in November 2006 by Alcoa/Worsley is substantially flawed as it represents a decrease in rates from the 2003 Final Determination. We disagree with the view that it is “substantially flawed” as it is our view, and it was the view of one of the Regulator’s consultants, that the

2003 Final Determination set a high value given that the recommended range was between \$13,000 and \$15,000 per kilometre in 2003.

In the light of recent comments from both WestNet and the Authority, Alcoa commissioned an interstate infrastructure consultant to independently generate a new maintenance model for the South West Mainline. This model is based on the GRV assets allocated to the SWM but unlike previous submissions by Alcoa/Worsley, it uses the *Code of Practice for the DIRN (Defined Interstate Rail Network) Volume 4 Track, Civil and Electrical Infrastructure Part 3 Infrastructure Guidelines* as the reference standard for inspections. Based on this National Code of Practice, it is assumed that the inspection regime would be fully compliant with the requirements of the Rail Safety Act.

This Code of Practice defines the minimum infrastructure inspection periods and track standards for the DIRN. Whilst this may reflect a higher standard of inspections than is required on the WestNet NG network, it does provide an accepted base for comparison of maintenance workload across jurisdictions and is therefore a better method to evaluate benchmarked infrastructure maintenance costs. Ultimately, a comparison would need to be made between the scope of work for the DIRN and for the SWM to ensure that the DIRN standard does not result in overservicing of the SWM.

This new DIRN Model excludes all life expired renewals and MPM activities however it does include rail resurfacing and rail grinding in accordance with the 2003 Final Determination where these activities are required to maintain, but not extend, the asset life.

The following routine maintenance activities are included in the analysis (Code of Practice Volume 4 Part 3 reference sections are shown in brackets):

- Weekly track patrol (multiple sections)
- Detailed walking inspection (multiple sections)
- Scheduled rail and welded joint inspection (Section 1)
- Continuous Ultrasonic Testing (Section 1)
- Scheduled rail wear inspection (Section 1)
- Sleepers and Fastenings inspection (Section 2)
- Points and crossings (turnouts) inspection & measurement (Section 3)

- Ballast inspection (Section 4)
- Track Geometry inspection (Section 5)
- Track Lateral Stability (Section 6)
- Clearances (Section 7)
- Earthworks (Section 8)
- Structures (Section 9)
- Flooding (Waterway and drainage inspection) (Section 10)
- Railway Signs (Section 11)

The unit rates used in the DIRN Model are based on track worker pay rates in NSW including all on-costs and uses quotations from track equipment operators in NSW and Victoria. All costs have been increased by 30% to allocate Head Office costs for the track maintainer and then by 20% to provide a 16% profit margin for the track maintainer.

Due to the nature of some of the costing calculations and quotations, the detailed costing model is provided as a Confidential Appendix (Appendix B) however a summary of the costs is provided in Table 5.1.

<b>SWM Annual Maintenance Cost for 181 km</b>	<b>Previous Model</b>	<b>DIRN Model</b>	<b>WestNet Proposed Cost</b>
Routine Inspections	\$523,200	\$556,529	see below
Corrective Maintenance	\$334,929	\$476,839	see below
Allowed MPM Activities	\$446,797	\$366,273	see below
Signalling and Communications	\$170,240	\$379,122	see below
<b>Subtotals</b>	<b>\$1,474,966</b>	<b>\$1,778,763</b>	<b>see below</b>
Head Office Overheads	\$442,490	\$533,629	see below
Profit Margin	\$383,491	\$462,478	see below
<b>Total (181.69km)</b>	<b>\$2,300,947</b>	<b>\$2,774,871</b>	<b>\$3,199,614</b>
Cost per kilometre	\$12,664/km	\$15,273/km	\$17,610/km

**Table 5.1 Comparison of Maintenance Models for SWM**

Whilst this DIRN based model shows a higher cost than our original modelling, this is mainly due to the higher signalling maintenance costs and the higher level of corrective maintenance. It may also reflect a higher inspection standard for some assets. We consider that the higher level of corrective maintenance shown in the DIRN Model is unlikely to be required if the infrastructure is always MEA.

**Based on the DIRN modelling, it is our view that maintenance costs should be \$15,273/km for the SWM and for the Brunswick to Worsley sections of line.**

#### *Signalling Maintenance Costs*

The PwC Review has identified “59 [FTEs] in regional signal maintenance (with these costs being covered in the maintenance unit rates)”<sup>18</sup> and 11 FTE in Signalling &

<sup>18</sup> PwC Review of WestNet Floor and Ceiling Costs for Certain Rail Lines, March 2007, Table 6 page 6

Communications management. Based on the assumption that all the 59 FTE are direct labour given the 11 FTE already separately allocated to management tasks, it can only be assumed that this number of staff must relate to obsolescent or aging assets which require a high level of maintenance.

Based on a MEA installation, we would submit that the maximum number of signalling maintenance personnel should be less than 1 FTE per 70 km of track given that all the communications links are optical fibre, all cabling to signal nodes is MEA, all signals are fitted with LED lamps and all equipment including signal lamps are remotely monitored. On this basis, we would suggest that the existing number of 59 FTE is not an acceptable allocation for a modern equivalent asset in the GRV model.

For example, we have estimated that 3 signalling technicians (plus 1 communications technician and 1 mechanical maintainer) would be capable of maintaining all the signalling equipment on the SWM and the Brunswick spur based on a MEA installation. This would suggest that 59 FTE is an excessive allocation given that only 900 kilometres of track is CTC signalled on the network.

**As we do not have access to the detailed allocation of signalling personnel, we would request that the total allocation of 59 FTE signalling maintenance personnel (which is based on the current asset mix) should be reassessed for a MEA maintenance task based on an optic fibre communication backbone and new solid state signalling equipment.**

## 6. OVERHEAD COSTS

### *Train Controllers*

The DD Paragraph 248 notes that there are 41 FTE involved in Train Control. The original WestNet Proposed Floor and Ceilings submission<sup>19</sup> Appendix 2 provided a breakdown of Train Controller's duties with a total of only 37 FTE. Appendix 2 then allocates 9.2 FTE to the South West in two regions – “South West” and “Picton”, each with 4.6 FTE implying that there is 1 train controller operating 24 hrs 7 days per week for each region.

We approached several experienced interstate train controllers and asked them to review the allocation of 9.2 FTE to the SWM. The feedback we have received is that for the length of track involved with single line working with passing loops, the number of train movements and the fact that it is CTC signalled – only one CTC screen would be required for the whole line and therefore a maximum of 5 FTE would be required to give 24/7 coverage.

**On the basis of this advice, we would request that the Authority review the applicability of using current Train Controller numbers rather than benchmarking the required numbers for the MEA. We would suggest that two screens (and therefore two Train Controllers) would not be efficient practice on a new installation with full CTC control over the SWM, the Terminal Ends and the Worsley line.**

### *Overhead Allocation to the Terminal Ends*

In DD Paragraph 264, the Authority seeks input on the current allocation methodologies for Terminal Ends. As Alcoa and Worsley have previously stated in our November 2006 submission, we do not accept that the revised allocation methodology provides a fair allocation of overheads costs to the Terminal Ends. As the Authority has noted in Table 3 page 51 of the DD, the allocation percentages for operating and overheads combined have fallen overall from 70.6% to 66.7% but the allocation of overheads only has risen from 38.3% to 55.2%. We would suggest that a reduction from an unacceptably high level of 70.6% to a still very high 66.7% hardly justifies the increase in overhead allocations by over 180% between 2005 and 2006.

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<sup>19</sup> WestNet Rail Proposed Floor and Ceiling Costs for Mainline, Worsley line and Terminal End Bits, August 2006, page 17

We would suggest that when the Productivity Commission<sup>20</sup> suggested that “allocating proportionately more common costs to less price-sensitive users” they were not expecting the common costs to exceed the allocated costs by up to 460% on one section of line (see example in Table 6.1 below) or that the changes to allocation methodology would result in a 186% increase<sup>21</sup> between 2005 actual allocation and the 2006 proposed allocation.

Terminal Ends Allocation example	Total Ceiling	Sum of Capital/ Maint/ Working Capital	Sum of Operating & Overhead Allocation	Unallocated costs as % of allocated costs
Inner Harbour 485 pts to Alcoa (inbound)	\$514,483	\$91,797	\$422,686	460%

**Table 6.1 Allocation of Operating and Overhead Costs to a route section**

**In response to the invitation for submissions in DD Paragraph 264, Alcoa and Worsley submit that the new allocation methodology for overheads on the Terminal Ends does not work and it should include a cap which ensures that overheads on any one route section do not exceed 20% of the ceiling on that route section.**

**We also object to the statement in DD Paragraph 254 which reads “Furthermore, PwC/HCS asserts that the separation out of the Terminal Ends into formal route sections was only undertaken to enable some customers to more fully attribute costs between their operating divisions”.**

The separation of the Terminal Ends was a decision between WestNet and the Regulator made during the Clause 9 determination in 2003. This was reiterated by the Authority<sup>22</sup> at the time of the first determination on the Terminal Ends as follows:

<sup>20</sup> Productivity Commission – Road/Rail Infrastructure Pricing Final Report December 2006 Finding 6.3 page 144

<sup>21</sup> Alcoa/Worsley Submission on WestNet Rail Floor and Ceiling Costs, November 2006 page 23 Table 5.2.1

<sup>22</sup> Determination of the ERA, Ceiling Costs to apply to Seven Terminal End Sections of the South West Main Line, 5 July 2004, page 1

*“..it was agreed between the Regulator and WestNet Rail (WNR) that the extent of the review of the SWM would only include the nine “common user” route sections of that line. As a result, the following short route sections were not included in the main lines Determination as they were deemed to be “user specific”.....” [list of Terminal Ends follows].*

Because of this decision, Alcoa was required to negotiate access rates for the Terminal Ends directly with WestNet and when these negotiations were unsuccessful, Alcoa made a Clause 10 application to the Authority in May 2004 to review the costs proposed by WestNet. The Determination was released on 5 July 2004.

**We would suggest that it was the regulatory process that resulted in the unfair allocation of overheads to the Terminal Ends because these route sections were not included in the initial Clause 9 determination and that it was unrelated to any user or its operating divisions needing to allocate costs. We request that the comments made in DD Paragraph 254 and Paragraph 260 be reworded.**



## 7. CONSISTENCY OF REVIEW DATES

We do not accept that the current review should be backdated to 1 July 2006. We consider that the effective date for the revised Floor and Ceiling Costs should be the date of the determination and should not be backdated to last year. Both the current process and the timeliness of the proposed price increases are an issue for users. We noted in our previous submission that WestNet lodged the Proposed Floor and Ceiling Costs on 11 September 2006, some three months late. Given that the Draft Determination was only issued on 20 March 2007, six months after WestNet's original lodgement it would now appear that the Final Determination may not be issued until one year after the original due date.

**Alcoa and Worsley recommend that the current price reset must now apply from the date of Final Determination and not from 1 July 2006.**

**We support the Authority's proposal to align future review dates to coincide with the 1 July three yearly price review but would emphasis that the timelines for the process must guarantee a Final Determination is issued by the 1 July review date.**

**CONFIDENTIAL APPENDIX A**

**Earthworks Cost Estimate – South West Mainline**

**CONFIDENTIAL APPENDIX B**

**DIRN MODEL**

**Estimated Maintenance Costs – South West Mainline**

**CONFIDENTIAL APPENDIX C**

**COMMENTS ON COMMUNICATIONS GRV QUOTATION**

